

Message Text

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DEPT PASS DOT: J. HERZ

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SUB: GOG ANNOUNCES NEW AUSTERITY TAXES ON LUXURY GOODS AND ENERGY
CONSERVATION MEASURES

REF: A) ATHENS 1953; B) ATHENS 4670; C) PARIS 14128

1. SUMMARY. IN TWO MAJOR PRONOUNCEMENTS OVER THE PAST FEW WEEKS, PRIME MINISTER CARAMANLIS CALLED FOR AN AUSTERITY CAMPAIGN TO COMBAT OVERCONSUMPTION OF LUXURY GOODS AND CURB WASTEFULNESS. THIS FOLLOWED SEVERAL EXHORTATIONS EARLIER THIS YEAR BY GOG ECONOMIC POLICYMAKERS (SEE REF A) AGAINST A DISTURBING TREND IN GREECE TOWARDS EXCESSIVE CONSUMPTION OF NON-ESSENTIAL LUXURY GOODS AT A TIME WHEN ECONOMIC STABILITY AND GROWTH DEPEND ON CONTROLLING INFLATIONARY PRESSURES AND DIRECTING RESOURCES TOWARDS PRODUCTIVE INVESTMENT. COORDINATION MINISTER PAPALIGOURAS HAS NOW ANNOUNCED SEVERAL NEW TAXES ON LUXURY GOODS AND AN ENERGY CONSERVATION PROGRAM AIMED AT TRANSLATING THE PRIME MINISTER'S POLICY GUIDANCE INTO SEPCIFIC MEASURES. END SUMMARY.

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2. ON MAY 19, COORDINATION MINISTER PAPALIGOURAS ANNOUNCED THE INTRODUCTION OF A NUMBER OF NEW TAXES ON LUXURY GOODS, AS WELL AS SEVERAL MEASURES TO CONSERVE OIL AND/OR ENERGY AND LOWER THE TAX BURDEN OF LOWER INCOME GROUPS. THESE MEASURES ARE DESIGNED TO CURB EXCESSIVE CONSUMPTION OF NON-ESSENTIAL GOODS (MANY OF WHICH ARE IMPORTED), THEREBY REDIRECTING RESOURCES TOWARDS MORE PRODUCTIVE

USES, AND TO REDUCE INCOME DISPARITIES.

3. STEPS TO RESTRAIN "CONSPICUOUS CONSUMPTION" HAVE BEEN EXPECTED FOR SOME TIME, SINCE OVER THE PAST SEVERAL MONTHS GOG POLICYMAKERS HAVE REPEATEDLY EXPRESSED DISSATISFACTION WITH THIS DISTURBING TREND. BANK OF GREECE GOVERNOR ZOLOTAS HAS MENTIONED IT IN SEVERAL POLICY SPEECHES (FOR EXAMPLE, SEE REF A). MOST RECENTLY IN HIS STATEMENT AT THE END OF APRIL TO THE BANK OF GREECE ANNUAL MEETING HE NOTED THAT "THE BASIC PROBLEMS FACING MONETARY AUTHORITIES ARE CONTINUING RAPID EXPANSION OF THE MONEY SUPPLY AND PROPER ALLOCATION OF AVAILABLE SAVINGS." PARTLY DUE TO AN UNDERDEVELOPED CAPITAL MARKET IN GREECE, HE SAID, THE BULK OF PRIVATE SAVINGS GOES TO COMMERCIAL BANKS. THIS LEADS TO EXCESSIVE EXPANSION IN SHORT-TERM CREDIT TO FINANCE "UNDESIRABLE IMPORTS OF LUXURY GOODS OR OTHER SPECULATIVE ACTIVITIES."

4. THE NEW MEASURES ANNOUNCED BY PAPALIGOURAS ARE AS FOLLOWS:

A. AN ADDITIONAL CONSUMPTION TAX OF 25 PERCENT ON CERTAIN LUXURY GOODS (E.G. IMPORTED SPIRITS, CAVIAR, SMOKED SALMON, PET FOODS, JEWELRY, STEREO EQUIPMENT, ETC.);

B. A PROGRESSIVE INCREASE IN THE SPECIAL CONSUMPTION TAX ON PRIVATE CARS WITH ENGINES OF 1800 CC AND OVER BY UP TO 200 PERCENT. THE REGISTRATION FEE ON PRIVATE CARS WITH ENGINES OVER 1800 CC AND ON MOTORCYCLES WITH ENGINES 400 CC AND OVER WILL ALSO BE INCREASED BY 50 PERCENT. MOREOVER, ANNUAL LICENSE FEES ON CARS WITH ENGINES 1800 CC AND OVER WILL BE INCREASED BY 100 PERCENT AS OF JANUARY 1, 1978. (EMBASSY WILL SUBMIT REVISED SUMMARY OF AUTOMOBILE REGULATED OFFICIAL USE

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TIONS BY AIRGRAM);

C. AFTER JANUARY 1, 1978, LEGAL ENTITIES AND CERTAIN PROFESSIONS (DOCTORS, ENGINEERS, ETC.) WILL NOT BE ALLOWED TO DEDUCT CAR EXPENSES (INCLUDING DEPRECIATION, GASOLINE, ETC.) FROM TAXABLE INCOME. SOME DEDUCTION WILL STILL BE ALLOWED FOR CARS WITH ENGINES UNDER 1800 CC.

D. RECREATION TAXES WILL BE INCREASED BY UP TO 150 PERCENT;

E. ENERGY CONSERVATION MEASURES: SPEED LIMITS WILL BE STRICTLY OBSERVED; STATE-OWNED VEHICLES MUST REDUCE GASOLINE CONSUMPTION BY 20 PERCENT FROM THE PREVIOUS YEAR; THERMOSTATS IN GOVERNMENT, PUBLIC ENTERPRISE, AND BANK BUILDINGS ARE TO BE SET AT 20 DEGREES CENTIGRADE OR LESS; OIL CONSUMPTION IN ALL CENTRALLY HEATED BUILDINGS WILL BE REDUCED BY TEN PERCENT VIS-A-VIS THE PREVIOUS YEAR; ALL EXPENSES FOR INSTALLATION OF SOLAR ENERGY HEATERS ARE DEDUCTIBLE FROM TAXABLE INCOME;

F. EFFECTIVE JANUARY 1, 1978, IF TAXABLE INCOME IS 60,000 DRACHMAS OR LESS, NO TAX FORMS NEED BE FILED NOR TAX PAID (THE PREVIOUS LEVEL WAS 30,000). THIS WILL ALLEVIATE THE TAX BURDEN OF LOWER INCOME GROUPS AND, AS IT AFFECTS ABOUT 250,000 PERSONS, WILL REDUCE THE TAX AUTHORITIES' PAPERWORK.

5. BOTH UNION OF DEMOCRATIC CENTER LEADER MAVROS AND PASOK PRESIDENT ANDREAS PAPANDREOU CRITICIZED THE GOVERNMENT'S PROGRAM AS INADEQUATE. MAVROS SAID THE IMPOSITION OF LUXURY TAXES WILL NOT SOLVE THE MORE PRESSING PROBLEM OF THE LAGGING INVESTMENT SECTOR. PAPANDREOU CRITICIZED THE GOVERNMENT'S PROGRAM AS INADEQUATE. MAVROS SAID THE IMPOSITION OF LUXURY TAXES WILL NOT SOLVE THE MORE PRESSING PROBLEM OF THE LAGGING INVESTMENT SECTOR. PAPANDREOU STATED THAT THE MEASURES WILL NOT BE EFFECTIVE EITHER IN REDUCING CONSUMP-

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TION OF LUXURY GOODS OR IN CONTROLLING INFLATION, AS THE HIGHER TAXES WILL BE SHIFTED TO THE GENERAL PUBLIC THROUGH PRICE INCREASES. HE SUGGESTED STRONGER MEASURES, SUCH AS QUANTITATIVE RESTRICTION OF LUXURY IMPORTS, AND CONTROLS ON SELLING PRICES AND MONOPOLY PROFITS.

6. COMMENT: IT IS UNLIKELY THAT THE INCREASED LUXURY TAXES WILL HAVE MORE THAN THE SYMBOLIC EFFECT OF UNDERLINING GOG ECONOMIC POLICIES AND GOALS. THE LUXURY GOODS IN QUESTION ARE CONSUMED LARGELY BY HIGH INCOME GROUPS, AND SHORT RUN DEMAND MAY PROVE TO BE INELASTIC EVEN AT THE HIGHER PRICES. MOREOVER, AS MAVROS POINTED OUT, THE MEASURES WILL HAVE NO IMPACT ON THE IMPORTANT

PROBLEM OF STAGNATING INDUSTRIAL INVESTMENT. BOTH THE OECD, IN ITS ANNUAL ECONOMIC AND DEVELOPMENT REVIEW COMMITTEE (SEE REF C), AND GOVERNOR ZOLOTAS, IN HIS RECENT STATEMENT TO BANK OF GREECE SHAREHOLDERS, HAVE EXPRESSED CONCERN THAT NEW INDUSTRIAL INVESTMENT, WHICH IS IMPORTANT FOR NECESSARY STRUCTURAL CHANGES IN GREECE'S ECONOMY, HAS STILL NOT MATERIALIZED. ZOLOTAS GOES SO FAR AS TO PINPOINT REASONS AND SUGGEST REMEDIES. REASONS, HE SAYS, INCLUDE AN UNCERTAIN OUTLOOK FOR FUTURE COSTS AND DEMAND, BOTH AT HOME AND ABROAD, BUT ALSO THE GOG'S COMPLEX AND TIME CONSUMING BUREAULIMITED OFFICIAL USE

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CRATIC PROCEDURES AND REGULATIONS FOR APPROVING AND IMPLEMENTING NEW INVESTMENT PROJECTS. EMPHASIZING THE IMPORTANT ROLE OF FOREIGN INVESTMENT AND ADVANCED TECHNOLOGY, HE SUGGESTS INSTITUTING A SIMPLE AND EASILY APPLICABLE POLICY OF DEVELOPMENT INCENTIVES, A LASTING TAX SYSTEM FAVORABLE TO INVESTORS, AN EXPLICIT, SIMPLIFIED AND FIRM POLICY TOWARDS FOREIGN CAPITAL, AND PROCEDURES WHICH FOSTER INCREASED COMPETITION IN PRODUCTION AND DISTRIBUTION. THIS IS THE MOST EXPLICIT AND STRAIGHTFORWARD INDICATION TO DATE THAT HIGH-LEVEL ECONOMIC POLICYMAKERS RECOGNIZE THE PROBLEMS FACED BY THE BUSINESS SECTOR. HOWEVER, THE REFORMS SUGGESTED BY ZOLOTAS WILL BE CONSIDERABLY MORE DIFFICULT TO IMPLEMENT THAN WAS THE IMPOSITION OF LUXURY TAXES.

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